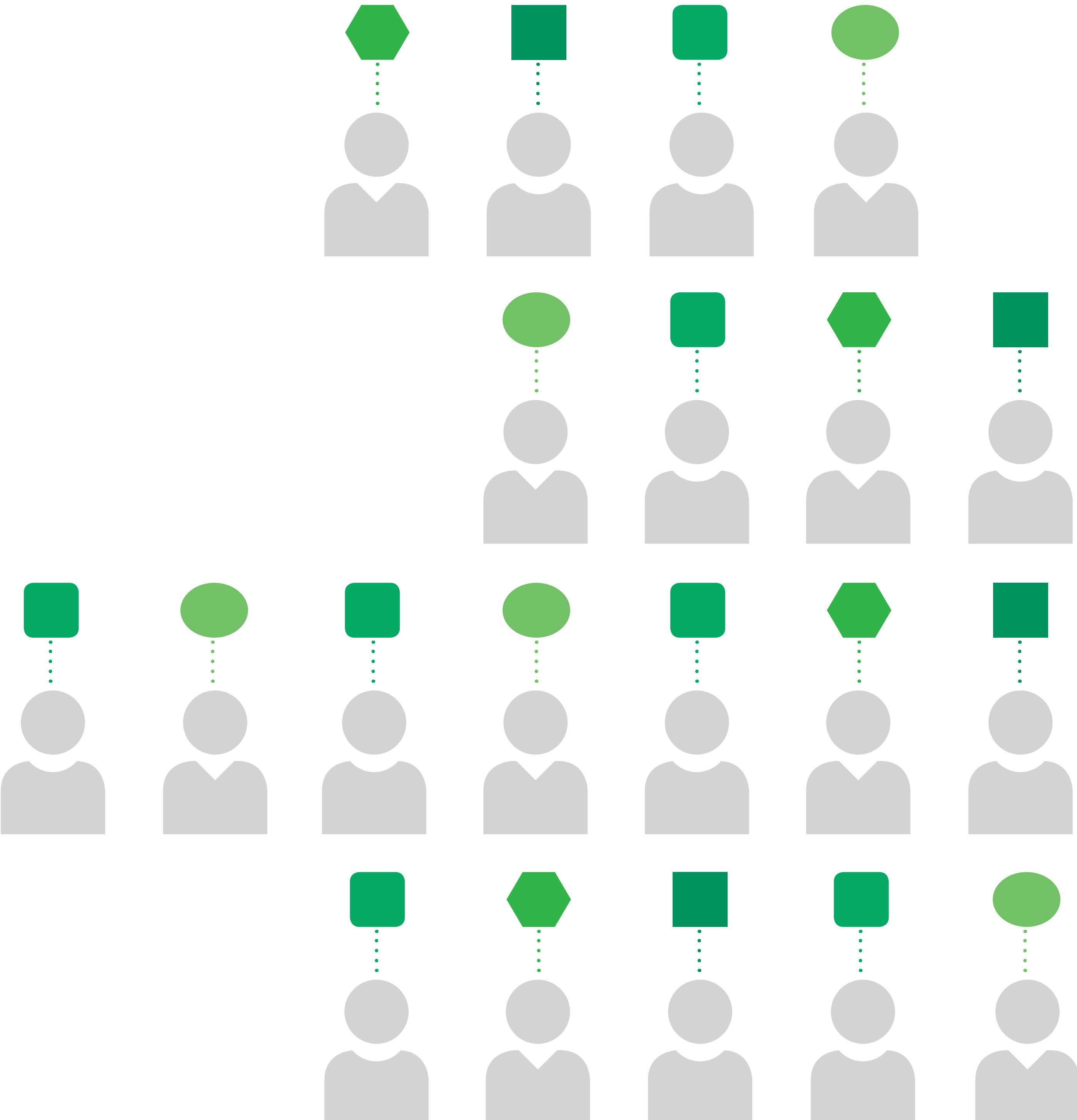
Executive Pay - Perspectives on a Fair Deal

A survey of FTSE 100 and 250 NEDs and Executives, Shareholders and the TUC

Hedley May



Hedley May is an independent executive search firm and consultancy working with the world's leading corporates, financial institutions and professional services firms. We help our clients attract and retain the highest quality individuals to lead their business critical corporate functions.

We are recognised as a market leader for our specialist expertise in the Human Resources, Legal, Compliance, Risk, Internal Audit and Company Secretarial functions.

Introduction

"The debate can't happen without bringing morals into it. The context we're in is serious: people have lost their jobs, are struggling to get by and are suffering."

FTSE 250 RemCo Chair

"Morals are subjective and should not be a factor in the debate. Companies that perform preserve jobs – what price do you put on that?"

FTSE 100 Reward Director

Few issues in the corporate world provoke as much heated debate as executive pay. It is a subject that frequently spills outside the confines of boardrooms and shareholder meetings, not only into the media but also into everyday conversations, raising difficult questions about value for money and social inequality.

The subdued economic climate over the five years since the financial crisis began has fostered an increasingly adversarial environment for executive pay. Sluggish movements in average wages and higher unemployment mean the person on the street – and the media columnist – are much more inclined to express outrage about 'excessive pay', especially given lacklustre corporate performance.

Yet who defines what is excessive? The reality is that there is a wide range of stakeholders – the Board, Executives, employees, institutional shareholders, trade unions, government, wider society – who all have the power to influence executive pay, either directly through debate at the Remuneration Committee ('RemCo'), a shareholder vote or through adverse headlines in the media.

Clearly, there is no 'right' answer when setting an Executive Director's compensation. Even within a typical RemCo there will be multiple perspectives, which can range from a deeply-held moral viewpoint to a pure market forces approach. Our survey highlights this – there is no single question which receives 100% agreement from Non-Executive Directors ('NEDs') and Executives.

In conducting the survey and producing this report, Hedley May intends to facilitate a higher quality and better informed debate. It is our view that the close scrutiny of executive pay is not going away. In the short-term, the improving economy and better shareholder returns may result in executive pay receiving fewer column inches in the press. Even so, unless a clearly stated societal consensus emerges, there will inevitably come a moment when rising CEO pay is once again the subject for sensationalist media coverage.

It is our proposition that while there may not be a 'right' answer there should be a 'fair' answer. Such an answer should not be a compromise, because that will not serve the long-term interests of stakeholders. A fair answer should be arrived at through a coherent and rational dialogue, which can be endorsed by consensus. Until such a consensus exists, RemCo Chairs will need to continue to work very hard to gain buy-in for their proposals on executive pay.

Methodology

This survey is a follow up to research published by Hedley May in March 2013, entitled *'Changing Faces at the RemCo'*. In that report we explored how companies are adapting to designing executive pay policies in the aftermath of the so-called 'Shareholder Spring': high-profile investor revolts that cost the CEOs of several leading UK-based companies their jobs in early 2012. In the same report we highlighted some of the divergent philosophies around executive pay. It was clear that there was appetite for continuing to evolve the debate, which prompted us to design a survey aimed at exploring some of these issues further.

In this survey we have posed a series of questions (appended to the end of this report), to more than 700 senior figures from UK-listed companies. From these, we received 140 responses from Executives and NEDs of FTSE 100 (57 per cent of respondents) and FTSE 250 (43 per cent of respondents) companies. The respondents are many of the people at the heart of remuneration policy in UK industry, including Chairmen, RemCo Chairs, Human Resources Directors ('HRDs'), Reward Directors and Company Secretaries.

We asked the same questions to 15 institutional shareholders, each of which ranks among the biggest 25 institutional shareholders in the country. For each question, respondents chose one of four answers – strongly agree, agree, disagree, or strongly disagree – and could provide a comment expounding their selection.

The focus of our survey is on identifying alignment and misalignment between NEDs, Executives and institutional shareholders. As reported in *'Changing Faces at the RemCo'*, in order to avoid negative media coverage and possible reputational damage, shareholder approval targets for the Directors' Remuneration Report need be as high as 85 per cent. It is, therefore, more critical than ever that RemCos and shareholders are on the same page on the main issues around executive pay.

To add a wider societal perspective on the subject, we also invited the Trades Union Congress ('TUC'), with its six million affiliated members, to complete our survey, which they did. Though a UK company's general workforce does not have representation on the RemCo, the TUC undoubtedly contributes to the debate and has an influence on government policy and media commentary related to remuneration.

Executive summary

The survey highlights several important **divergent starting point philosophies** between companies and shareholders:

- Most Executives and NEDs believe the calibre of the CEO is critical and that the role has become more difficult. Only one-third of shareholders agree.
- While 90 per cent of Executives agree (almost 50 per cent strongly) that market competitive reward is essential to attract, retain and motivate the best people, fewer shareholders agree and less strongly.
- The risk of a flight to private equity as a result of greater scrutiny on pay and reputational risk for public company directors is rejected by the majority of shareholders, NEDs and Executives. However, nearly half of HRDs see this as a real risk.

There is, though, consensus between NEDs, Executives and Shareholders on four fundamental issues:

- The importance of performance based pay.
- Business performance should be the primary driver for executive pay.
- Reward should focus Executives on the longer term success of the company.
- Executive pay arrangements have become too complicated and need to be simplified.

Shareholder engagement emerges as an area where there is considerable room for improvement on the part of companies and shareholders alike:

- The risk of future shareholder revolts is greater than companies currently recognise.
- Shareholders want a higher-quality dialogue, supported by comprehensive briefing materials provided in advance, that is not exclusively focused on pay.
- Companies believe that many shareholders are inadequately equipped for this new, more intensive type of engagement. A significant number of shareholders agree.

There is much work to be done around **succession planning**:

- Shareholders are very critical of companies' attempts at succession planning. Over 50 per cent of HRDs acknowledge that they can improve.
- Only 57 per cent of NEDs and Executives believe that there is one or more credible internal successors for the role of CEO at their company.

The majority of companies and shareholders agree that the BIS regulations that came into force on 1st October 2013 are unworkable and that caps on CEO pay are not worth considering. The TUC, however, strongly advocates a maximum ratio of average workers' pay.

There is broad support for the idea of **reducing notice periods** for under-performing CEOs, with Executives being the most convinced; suggesting that incidents of pay for failure are far less likely to occur in the future.

Companies believe the **landscape for executive pay and succession will continue to get tougher** while shareholders are divided. The widespread support for a RemCo forum to debate and educate around issues of executive reward suggests a strong commitment by companies to reach a deal that will be considered fair by the majority.

Valuing the CEO

One reason advanced by many for justifying high CEO pay centres on the extreme importance of the job and therefore the critical nature of the calibre of individual fulfilling the role. There may, then, be some surprise about our survey's most striking result. On whether **"The calibre of the CEO is the principal driver of a company's success"**, more than two-thirds of NEDs and Executives agree or agree strongly, including over three-quarters of RemCo Chairs, HRDs and Reward Directors. However, of the 15 shareholders we asked, nine disagree. As a group they attach far less importance to the calibre of the CEO, seeing it as "just one of several factors, highly dependent on the context for each company".

Another justification for higher CEO pay centres on the increasingly difficult nature of the role. However, there is an even more pronounced split on this issue. When asked whether **"The role of the CEO at a UK PLC has become significantly more challenging over the last five years"**, almost 90 per cent of Executives agree with this statement – a third of these strongly. This compares to just five of the shareholders surveyed.

Neither is there consensus around the scarcity of talent able and willing to perform the top job. The comments we received suggest that RemCos are more inclined to justify a higher level of pay, because of the exceptional and unique skillset required and the burden of being a CEO. However, neither shareholders, nor for that matter the TUC, believe these individuals to be quite as rare as companies often claim.

> "We haven't focused enough on how difficult executives' roles are. You have horrible decisions to make that weigh heavily. And it is a very rare combination of skills; very few people can do it. They are time consuming jobs, 365 eighteen hour days. These are deeply unattractive jobs to normal, rational people." **FTSE 100 HRD**

We suspect that the calibre of the CEO, the increasingly challenging nature of the role and rarity of talent are natural assumptions for many RemCos. What is clear from our survey is that this is not the case for many shareholders. Thus RemCo Chairs must do more to make explicit their thinking in areas which hitherto they have perhaps taken for granted.

> "People talk about 'rare talent' – I suspect there is more of it about than these people like to think."
> **TUC**

These different starting points are also reflected in the responses to whether: **"It is essential to offer a market-competitive reward opportunity if a UK listed company wants to attract, retain and motivate the best people".** Almost 90 per cent of Executives agree, more than half strongly – making it the most enthusiastically received of any proposition in the survey among this group. Shareholders, however, are far less effusive: a third disagree and not one agrees strongly.

> "Remuneration is an emotive issue to enable shareholders to make their point. When shareholders are winning they're much more tolerant. The irony is that you have to work harder when it is tougher but you get paid less. The best way to act like a shareholder is to be one." **FTSE 100 HRD**

One common argument in favour of offering competitive pay is: **"My listed company is at risk of losing top executive talent to private companies and other organisations not required to make such extensive public pay disclosures"**. However, this argument does not garner much support. Shareholders in particular are unanimously dismissive of this as a risk, while a majority of every group we asked also rejects the proposition. That said, it is noteworthy that 42 per cent of HRDs – arguably the most informed on the subject – consider it a risk.

> "[Stephen Hester, former CEO of RBS] met his targets, so putting him in the position where he had to decline his bonus was just about politicians scoring points and the press beating people up. I wouldn't want to be in his shoes. The danger is, I don't think anyone would want to be." **FTSE 250 RemCo Chair**

Similarly familiar is the suggestion of the potential reputational damage that CEOs of publicly-listed companies are exposed to as a result of media scrutiny of their pay package. Again, our survey shows that shareholders find this argument dubious. Asked whether **"The risk of negative media commentary on pay discourages suitably qualified candidates from taking Executive Director roles at UK listed companies"**, half of HRDs and company Chairmen and two-thirds of Reward Directors said it does. However, 10 of the shareholders who responded reject the proposition.

Emerging consensus

The good news is that despite these discrepancies, there is strong consensus between shareholders and those setting remuneration policy on four fundamental issues. In particular, 90 per cent of NEDs and Executives, together with all but one investor, agree or strongly agree that **“Performance-based reward plays an important part in the delivery of results”**. A similarly emphatic majority agree or strongly agree that **“Business performance should be the primary driver for executive reward”**.

And yet…An exception to the widespread agreement around linking pay to performance came from the **TUC**, which said: “Performance related pay has driven some of the greatest pay increases and there is little or no evidence to suggest that it has driven an improvement in company performance. If talented people are primarily motivated by money, we would question whether they are the right people to be running our companies. Shouldn’t we have leaders who are motivated by the company, the challenge and the opportunity?”

Though **shareholders** are strongly in favour of variable pay, a similar theme emerges in some of their responses. One said: “Currently performance-based reward plays an important part in delivery of results because this is how executives measure themselves. Not enough attention is paid to other drivers. If these became more important – doing social good, having a great work environment, the right culture of openness, innovation, etc. – things might become more balanced. Having said this, performance-based reward can help to change culture.”

Both groups emphasise that this needs to apply in bad times as well as good. The Reward Director of one FTSE 100 company said: “If the company does badly and bonuses have still kicked in, then the company needs to have a very good reason why – and it’s got to be less of the ‘they’ve all worked so hard’ response.” A shareholder added: “exceptional performance should be rewarded, as long as that flexibility goes both ways – just as the consequences move for shareholders”.

Another subject of firm consensus is that **“Reward arrangements need to focus top Executives more firmly on the longer term success of the company rather than short-term results”**. This has been a major theme in the financial services industry, where banks’ perceived obsession with short-term rewards over long-term sustainability is seen as a major cause of the irresponsible behaviour that led to the financial crisis. One solution in the sector has been the introduction of pay that can be ‘clawed back’ if a company does not achieve specified targets over the medium and long term.

The issue of simplifying pay arrangements takes on increasing urgency because of new regulation introduced by the Department for Business, Innovation and Skills ('BIS') to increase transparency, which will place a greater workload on shareholders and boardrooms. A **FTSE 100 Chairman** said: "With BIS, [institutional shareholders] will be absolutely overloaded. Something is not quite right in the overall governance framework."

"Once you have a clear framework you shouldn't tinker with [pay policy] too much. Everyone will have a view on what you should measure, but you can't make everything important or it dilutes the impact. Clarity is key – you can't chase down every rabbit hole. Focus on simplicity and consistency."

FTSE 100 HRD

Finally, there is resounding agreement that **"Top executive pay arrangements have become too complicated and need to be simplified"**. Along with 92 per cent of NEDs, 13 out of 15 shareholders agree, nine strongly.

Taken together, these four points of consensus are reassuring. While stakeholders might approach pay issues from different starting points, they show that there is broad agreement that performance-based pay, driven by business performance, focusing on the long term and delivered through simple and transparent pay policies is the goal for RemCos to aim at.

That said, while everyone aspires to greater simplicity, there is less consensus of how to simplify and recent attempts (such as withdrawing LTIPs) run counter to shareholders' aspirations of greater focus on the long-term. Also, increased demands to align payouts to the shareholder experience will require greater use of judgment which creates a tension with simplicity.

Commitment to higher quality engagement

In *'Changing Faces at the RemCo'*, we discussed some of the challenges around engagement between RemCo members and shareholders, particularly for companies outside the FTSE 30. This survey makes clear that there is still much work to be done.

We posed the proposition: **"There is more my company can do to engage proactively and effectively with its shareholders and proxy voting agencies on issues of executive reward"**. Overall, more than half of NEDs and Executives admit that this is the case. However, from the other side of the engagement question, shareholders are far more emphatic with all but two believing companies could do more.

> "Although we see over 50 companies each year specifically to discuss their remuneration arrangements, that is still only a small minority of portfolio companies. Mid and small cap companies in particular could do more. Companies should also embrace collective engagement, where hitherto most prefer to 'divide and rule'.
>
> It is too easy, because it is visible through disclosure, to focus on reward and therefore tick the engagement box. There are other less obvious and more difficult areas to engage on, such as long-term strategy and ensuring this evolves and is followed for the benefit of shareholders.
>
> We need not 'more engagement' (possibly less!), just better engagement. **Institutional shareholder views on engagement**"

Frustration on the part of shareholders is clear, not only about the amount of engagement but also its quality. The impression we received is that companies too often reduce engagement to a box-ticking exercise and do not give sufficient consideration to how shareholders want to be engaged with.

What does better engagement look like? In the words of one shareholder: "Keep it simple, engage with sufficient time for shareholders to consider the arrangements, give shareholders the information they need upfront to form a considered view of pay and be open to changes recommended by shareholders".

From companies there are mixed feelings. Many accept that they need to do more in this area. But several argue that shareholders on the whole are not adequately equipped for a new level of engagement. As we wrote in *'Changing Faces at the RemCo'*: "Time constrained, shareholders are only interested in meeting when there is either a new remuneration policy being proposed or a change to an existing one. However, for RemCo Chairs and their teams, persuading institutional shareholders of the merits of a potentially contentious plan, where little trust or relationship has been developed, is a very uncomfortable place to be."

> "It's not fair to say that this new breed of shareholders have no interest, but there is a disconnect – they are less interested in long term strategy."
> **FTSE 100 HRD**

> "Shareholders just don't have the capacity to cope. It could mean they that they will need to make decisions based on paper, with no time for consultations, which would not be a good thing."
>
> **FTSE 100 HRD**

We therefore put the statement to shareholders: **"As an institutional shareholder we are adequately resourced for engagement with the PLCs that we invest in"**. Nearly half of respondents admit that they are not.

Wherever the onus may lie, the consequences of not improving could be severe – and there does appear to be some complacency on the part of RemCo members. We asked respondents whether **"A shareholder revolt on pay is unlikely because my company's Remuneration Committee operates to the highest standards of governance and good practice"**. Over 80 per cent of HRDs agree, more than half strongly, along with all but one RemCo Chair. Yet shareholders themselves are far less conciliatory – over half of the institutional shareholders surveyed think that a shareholder revolt is still a possibility.

Succession – better planning required

As with engagement, there is widespread acceptance that succession planning is an area in which UK companies must do better.

On whether **"Most FTSE 100 companies are excellent at succession planning and talent development"**, shareholders unanimously disagree, a quarter strongly. We sense from surrounding comments a certain level of frustration from shareholders that the companies they invest in are not able to get this right, leaving shareholders to 'foot the bill' for the hiring of an expensive external candidate.

The response from Executives and NEDs is slightly more optimistic. But perhaps most revealing is that HRDs, the people most familiar with the succession planning process and therefore probably best placed to judge, are the most inclined to call for improvement – 56 per cent acknowledge that their company is not excellent at succession planning and talent development.

> "There needs to be more interaction between compensation and succession – US companies are better at making this link."
>
> **Remuneration Consultant**

It is an answer corroborated by a further question put solely to NEDs and Executives. We asked if, **"There is one or more internal credible succession candidates for Group CEO at my company"**. Overall, 58 per cent of respondents agree. But again, a breakdown of the figures is telling: agreement among Executives, at 55 per cent, is significantly lower than for NEDs, at 71 per cent. Whilst perhaps not a statistically significant difference, it is one that may be accounted for in the different vantage point that the Board and Executives have on talent.

> "Succession planning is a critical issue and should be given the attention it deserves at main Board."
>
> **FTSE 100 Chairman**

The Board will typically see a name on a succession plan and only see the candidates in their occasional attendance at a Board meeting, whereas the Executives will have day-to-day interaction with the candidates perhaps enabling a more informed assessment of their true calibre. This raises an important question: do Boardrooms know enough about the quality of talent coming through, or is their involvement in succession planning, on account of time, often relegated to a perfunctory exercise?

Clearly, more needs to be done in this area, but effective succession planning is extremely difficult, particularly if one subscribes to the 'rare talent' argument. RemCos may therefore need to be more open with their shareholders about the challenges of succession planning whilst at the same time demonstrating greater scrutiny of their company's talent development processes.

More regulation or more dialogue?

In '*Changing Faces at the RemCo*' we concluded by saying that "the defining impression from our interviews is the vast amount of resource and time that PLCs now dedicate to the issue of remuneration... we were left with the image of the country's leading business people huddled around a table, thrashing out remuneration issues, rather than engaged in how to develop new products or markets."

Asked whether **"The complexity of managing remuneration and succession is going to get tougher in the future"**, 91 per cent of NEDs and Executives agree. Shareholders on the other hand are somewhat more optimistic with only 47 per cent agreeing.

The new pay rules which came into force on 1st October 2013 are not viewed as representing a step forward. Our survey was conducted in advance of that date and posed the statement that, **"Many of the UK government's proposals for change in executive reward are unworkable"**. Two-thirds of NEDs and Executives and just under half of shareholders agree. Our discussions highlight not only the difficulty of effecting changes to pay structures in the new regime, but more importantly the unintended consequence that in seeking to consult less on policy than on substance, companies are likely to create more flexible policies that may lead to greater pay inflation.

The TUC champions a simpler and more radical reform – to cap CEO compensation at a ratio of 20 times the average worker's pay. Though we did not pose that question, the proposition that **"CEO variable pay should be capped at a maximum ratio of base salary across all UK-listed companies"** is roundly rejected by both companies and shareholders.

> It sounds simple to say that the CEO should not earn more than X times the average employee's salary, but how does that work in an international business? It just doesn't. Sounds good to parrot out though… **FTSE 100 HRD**

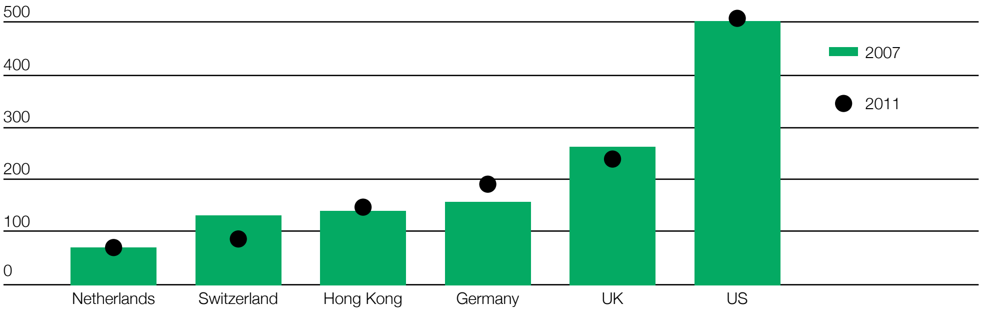
However, the days of 'pay for failure' may well be over. Two-thirds of NEDs and more than half of shareholders believe that, **"Boards should be able to reduce notice periods in the event of extremely poor performance and/or reputational damage."**

CEO to average employee pay ratio:

USA: 508:1; UK: 238:1; Germany: 190:1
Source: FT 3 June 2013

Mind the gap

Ratio of average chief executive pay to average nominal wages



Source:JLO

Conclusion

It is clear from our survey that there are many different views on this most emotive of subjects. Achieving a ‘fair deal’ will not be easy and if further, more severe regulation is to be avoided then greater fairness must evolve through better dialogue. It seems that there is widespread acknowledgement of this as 83 per cent of shareholders and 70 per cent of NEDs and Executives **“would encourage RemCo Chairs to join a forum set up specifically to debate and educate around issues of Executive Reward”.**

How such a RemCo forum might be established and its potential impact will be topics for the future. In the meantime, we end on the same note as we began: value and inequality. Here is the view of a FTSE 100 Chairman:

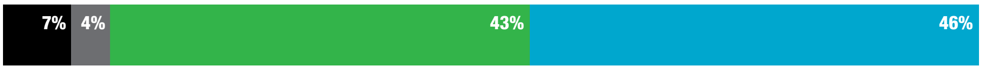
> “What role do morals have to play? The starting point is what is right for strategy and, ultimately, what will deliver shareholder value. Of course, we have to look at the environment in which the business is operating and ensure that there is parity between executive pay and pay at lower levels. You have to have an eye on the rate at which executive pay inflates, versus the general workforce. You can’t hand out huge rises if there is a pay freeze across the group. You have to be conscious of issues of reputational risk. If you deliver shareholder value investors are not interested in quantum. Reward for failure or excessive reward for mediocre performance will worry shareholders. However, we are not indulging in social engineering. Ultimately, shareholder value is a capitalist construct and market forces must apply.”

Appendix - Executive Reward Survey 2013

- Strongly disagree
- Disagree
- Agree
- Strongly Agree

1 It is essential to offer a market-competitive reward opportunity if a UK listed company wants to attract, retain and motivate the best people.

Combined Executive & NED Response



Shareholder Response

TUC Response*

"This sort of argument has been used to justify the inexorable increase in executive remuneration throughout the last twenty years - the gap between the pay of top executive and ordinary employees is now far too high and over-rewards the contribution of those at the top of the company in relation to other staff; reducing this gap should be a priority for companies - research shows that companies with high wage ratios perform worse in terms of productivity and profitability than companies with lower wage ratios." **TUC**

*The TUC provided answers to eight questions in the survey.

2 Performance-based reward plays an important part in the delivery of results.

Combined Executive & NED Response

Shareholder Response

TUC Response

"There is clear evidence that performance-related pay does not lead to higher levels of motivation or performance - this is demonstrated by the well documented lack of correlation between directors' pay and either company or individual performance - there is also strong academic evidence that paying for performance does not boost motivation or results - in a nutshell, performance-related pay does not work." **TUC**

3 Business performance should be the primary driver for executive reward.

Combined Executive & NED Response

Shareholder Response

TUC Response

"See above plus it is simply not possible to translate the complexities of running a company into a simple set of targets against which to measure pay - this has meant that incentive schemes for directors have become evermore complex, leading directors to see them as neither linked to business performance nor within their control." **TUC**

4 Top executive pay arrangements have become too complicated and need to be simplified.

Combined Executive & NED Response

NEDs

Shareholder Response

TUC Response

5 The complexity of managing remuneration and succession is going to get tougher in the future.

Combined Executive & NED Response

Shareholder Response

6 Reward arrangements need to focus top executives more firmly on the longer term success of the company rather than short term results.

Combined Executive & NED Response

Shareholder Response

TUC Response

"However, disagree with use of performance-related pay as set out above." **TUC**

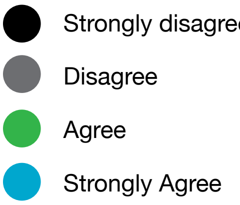
7 CEO variable pay should be capped at a maximum ratio of base salary across all UK listed companies.

Combined Executive & NED Response

Shareholder Response

TUC Response

"Also it is the variable elements of pay that have contributed most to the gap between directors' pay and the pay of other employees in their own companies - This gap is detrimental to company performance: research shows that companies with high wage ratios perform worse in terms of productivity and profitability than companies with lower wage ratios." **TUC**



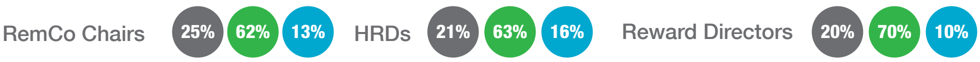
8 Boards should be able to reduce notice periods in the event of extremely poor performance and/or reputational damage.

Combined Executive & NED Response

Shareholder Response

9 The calibre of the CEO is the principal driver of a company's success.

Combined Executive & NED Response



Shareholder Response

TUC Response

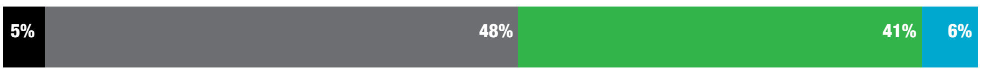
10 The role of the CEO at a UK PLC has become significantly more challenging over the last five years.

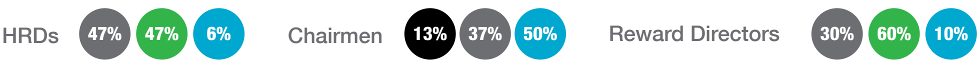
Combined Executive & NED Response

Shareholder Response

11 The risk of negative media commentary on pay discourages suitably qualified candidates from taking Executive Director roles at UK listed companies.

Combined Executive & NED Response





Shareholder Response

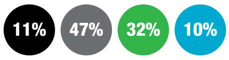
12 Remuneration constraints have prevented my company from retaining or hiring key executives in the last year.

Combined Executive & NED Response

13 My listed company is at risk of losing top executive talent to private companies and other organisations not required to make such extensive public pay disclosures.*

Combined Executive & NED Response

HRDs



Shareholder Response

*Question modified so that shareholders and/or TUC could respond.

14 As an institutional shareholder we are adequately resourced for engagement with the PLCs that we invest in.

Shareholder Response

15 There is more my company can do to engage proactively and effectively with its shareholders and proxy voting agencies on issues of executive Reward.*

Combined Executive & NED Response

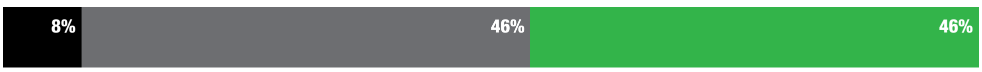
Shareholder Response

*Question modified so that shareholders and/or TUC could respond.

16 Many of the UK government's proposals for change in executive reward are unworkable.

Combined Executive & NED Response

Shareholder Response



- Strongly disagree
- Disagree
- Agree
- Strongly Agree

17 I would encourage my Remuneration Committee Chair to join a forum set up specifically to debate and educate around issues of Executive Reward.*

Combined Executive & NED Response

Shareholder Response

*Question modified so that shareholders and/or TUC could respond.

18 A shareholder revolt on pay is unlikely because my company's Remuneration Committee operates to the highest standards of governance and good practice.

Combined Executive & NED Response

HRDs

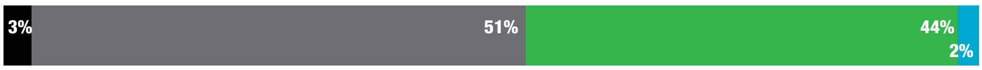
19 Most companies are now operating to the highest standards of governance and good practice in relation to reward, minimizing the likelihood of a shareholder revolt on pay.*

Shareholder Response

*Question modified so that shareholders and/or TUC could respond.

20 My company is excellent at succession planning and talent development.

Combined Executive & NED Response



HRDs

21 Most FTSE 100 companies are excellent at succession planning and talent development.

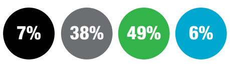
Shareholder Response

TUC Response

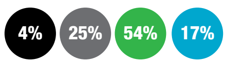
22 There is one or more internal credible succession candidates for Group CEO at my company.

Combined Executive & NED Response

Executives



NEDs



Hedley May

Nick Hedley

Nick is a recognised leader in the in-house Legal, Risk, Company Secretarial, Compliance and Internal Audit markets and has worked for a broad spectrum of corporates and financial institutions. Previously, he was a partner at Whitehead Mann, where he led the Legal, Governance & Risk Practice. Nick is a qualified solicitor who began his career in law before moving into search in 1995. He has an LLB from Queen Mary & Westfield College, University of London.

Deborah Warburton

Deborah leads the Human Resources practice. She is an HR specialist who has focused on senior level search since 2000, working with UK and international clients across many sectors including financial services, retail, telecoms, media and industrial. Formerly Head of European HR Practice at Egon Zehnder International, Deborah is a recognised leader in the HR market. Deborah began her career in general insurance with Aviva. She has a BSc (Hons) in Psychology from Newcastle University and an MBA from Judge Institute, University of Cambridge.

Eleanor Hawkes

Eleanor focuses on the Human Resources and Legal functions and has worked with clients across a wide range of sectors, including financial services, industrial, utilities, media, retail and travel. She has developed a particular specialism in senior Reward hires for FTSE 100 companies. Before joining Hedley May in 2010, Eleanor was a consultant at Robert Walters and she began her career at Marks & Spencer. She has an MA in History from Newnham College, University of Cambridge.

Recognised as a market leader for our expertise in the Human Resources, Legal, Compliance, Risk, Internal Audit and Company Secretarial functions, previous Hedley May publications include:

- Changing Faces at the RemCo - Strategies for Navigating Today's Remuneration Landscape
- Lawyers on Boards – "Where are they?" – *in association with The Chairmen's Forum*
- Risk Upgrade: Rise of the New Model CRO in the Financial Services sector
- The Myth and Reality of the Corporate CRO - an individual or a set of capabilities? - *in collaboration with Deloitte*
- Partner Lateral Hires: the critical factors that determine their success or failure

If you would like information on any of these subjects or about Hedley May, please contact Nick Hedley, Deborah Warburton or Eleanor Hawkes.

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